



TERRASCEND CORP.

Consolidated Financial Statements

**For the years ended December 31, 2019 and December 31, 2018
(In Thousands of Canadian Dollars)**

Independent Auditor's Report

To the Shareholders of TerrAscend Corp.:

Opinion

We have audited the consolidated financial statements of TerrAscend Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Mac Neil.

Toronto, Ontario
April 23, 2020

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

TerrAscend Corp.

Consolidated Statements of Financial Position

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		\$ 11,900	\$ 21,773
Receivables, net of expected credit losses	4, 18	7,623	9,641
Share subscriptions receivable	16	31,772	—
Notes receivable	5	5,986	1,561
Investments	6	465	7,690
Biological assets	9	5,484	545
Inventory	10	20,422	14,844
Prepaid expenses and other assets		7,081	2,740
		<u>90,733</u>	<u>58,794</u>
Non-Current Assets			
Investment in joint venture	7	—	2,732
Investment in associate		1,299	—
Property, plant and equipment	11	112,650	25,427
Intangible assets and goodwill	12	241,148	2,025
Indemnification asset	19	14,936	—
		<u>370,033</u>	<u>30,184</u>
Total Assets		<u>\$ 460,766</u>	<u>\$ 88,978</u>
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 25,002	\$ 17,677
Deferred revenue		1,179	12
Loans payable	13	63,068	12,683
Contingent consideration payable	8	31,182	—
Lease liability	14	1,157	—
Corporate income tax payable	19	21,276	16
		<u>142,864</u>	<u>30,388</u>
Non-Current Liabilities			
Loan payable	13	6,298	—
Contingent consideration payable	8	175,848	—
Lease liability	14	19,572	—
Convertible debentures	15	13,874	—
Deferred income tax liability	19	26,981	688
		<u>242,573</u>	<u>688</u>
Total Liabilities		<u>\$ 385,437</u>	<u>\$ 31,076</u>
Shareholders' Equity			
Share capital	16	259,892	64,883
Contributed surplus	16	54,777	22,184
Cumulative translation adjustment		(1,992)	—
Deficit		(245,998)	(30,596)
Non-controlling interest	17	8,650	1,431
Total Shareholders' Equity		<u>75,329</u>	<u>57,902</u>
Total Liabilities and Shareholders' Equity		<u>\$ 460,766</u>	<u>\$ 88,978</u>
Total Number of Common and Proportionate Voting Shares Outstanding	16	<u>141,980,314</u>	<u>76,169,165</u>

Subsequent events (note 27)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board
"Jason Ackerman"
 Chief Executive Officer

"Jason Wild"
 Chairman of the Board

TerrAscend Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	For the year ended December 31, 2019	December 31, 2018
Sales, net of excise tax	4	\$ 84,868	\$ 6,826
Cost of sales	10	81,295	8,846
Gross profit (loss) before gain on fair value of biological assets		3,573	(2,020)
Unrealized gain on changes in fair value of biological assets	9	5,480	404
Realized fair value amounts included in inventory sold		(725)	(132)
Gross profit (loss)		8,328	(1,748)
Operating expenses:			
General and administrative	20	50,073	18,114
Share-based payments	16	11,604	6,558
Amortization and depreciation	11, 12	5,499	533
Research and development		709	141
Total operating expenses		67,885	25,346
Loss from operations		(59,557)	(27,094)
Impairment of goodwill	12	66,213	—
Revaluation of contingent consideration	8	61,851	—
Transaction and restructuring costs	8	11,146	—
Finance and other expense (income)	5, 13, 14	5,675	(641)
Unrealized loss (gain) on investments	6, 7	5,546	(5,177)
Impairment of intangible assets	12	4,367	188
Impairment of property, plant and equipment	11	2,305	—
Unrealized loss on note receivable	5	1,655	—
Realized gain on investments	6	(1,400)	—
Foreign exchange loss (gain)		413	(24)
Loss before income taxes		(217,328)	(21,440)
Current income tax expense	19	3,959	16
Deferred income tax (recovery) expense	19	(2,335)	688
Net loss		\$ (218,952)	\$ (22,144)
Currency translation adjustment		1,992	—
Comprehensive loss		\$ (220,944)	\$ (22,144)
Net loss attributable to:			
Shareholders of the Company		(215,788)	(22,028)
Non-controlling interests	17	(3,164)	(116)
Comprehensive loss attributable to:			
Shareholders of the Company		(217,666)	(22,028)
Non-controlling interests	17	(3,278)	(116)
Net loss per share, basic and diluted			
Net loss per share – basic and diluted		\$ (2.17)	\$ (0.23)
Weighted average number of outstanding common and proportionate voting shares		99,592,007	93,955,914

The accompanying notes are an integral part of these consolidated financial statements.

TerrAscend Corp.

Consolidated Statements of Changes in Shareholders' Equity

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

For the year ended December 31, 2019	Notes	Share capital	Contributed surplus	Cumulative translation adjustment	Deficit	Non-controlling Interest	Total
Balance at January 1, 2019		\$ 64,883	\$ 22,184	—	\$ (30,596)	\$ 1,431	\$ 57,902
Shares issued - warrant exercises	16	46,880	(13,701)	—	—	—	33,179
Shares issued - stock option exercises	16	4,749	(2,129)	—	—	—	2,620
Shares issued - acquisition of Grander	16	6,729	—	—	—	—	6,729
Shares issued - acquisition of Apothecarium	16	41,259	—	—	—	—	41,259
Shares issued - acquisition of Ilera	16	27,488	—	—	—	—	27,488
Private placement net of share issuance costs	16	97,110	1,298	—	—	—	98,408
Issuance of proportionate voting warrants	16	(29,820)	29,820	—	—	—	—
Issuance of convertible debentures - conversion option	15	614	4,005	—	—	—	4,619
Issuance of convertible debentures - warrants	15	—	863	—	—	—	863
Warrants expired	16	—	(2)	—	2	—	—
Options expired/forfeited	16	—	(384)	—	384	—	—
Share-based compensation	16	—	12,823	—	—	—	12,823
Non-controlling interest on acquisition of Solace Rx	17	—	—	—	—	2,407	2,407
Non-controlling interest on acquisition of Ilera	17	—	—	—	—	5,747	5,747
Capital contributions	17	—	—	—	—	2,346	2,346
Unrealized foreign exchange on translation of NCI	17	—	—	—	—	(117)	(117)
Net loss for the year		—	—	(1,992)	(215,788)	(3,164)	(220,944)
Balance at December 31, 2019		\$ 259,892	\$ 54,777	(1,992)	\$ (245,998)	\$ 8,650	\$ 75,329
For the year ended December 31, 2018	Notes	Share Capital	Contributed surplus	Cumulative translation adjustment	Deficit	Non-controlling Interest	Total
Balance at January 1, 2018		\$ 50,344	\$ 25,796	—	\$ (8,771)	—	\$ 67,369
Shares issued - warrant exercises	16	3,633	(849)	—	—	—	2,784
Shares issued - stock option exercises	16	1,997	(1,197)	—	—	—	800
Shares issued - plan of arrangement	16	8,909	(8,909)	—	—	—	—
Warrants issued for services	16	—	633	—	—	—	633
Share-based compensation	16	—	6,913	—	—	—	6,913
Options expired	16	—	(203)	—	203	—	—
Net loss for the year		—	—	—	(22,028)	116	(21,912)
Non-controlling interest		—	—	—	—	1,315	1,315
Balance at December 31, 2018		\$ 64,883	\$ 22,184	—	\$ (30,596)	\$ 1,431	\$ 57,902

The accompanying notes are an integral part of these consolidated financial statements.

TerrAscend Corp.

Consolidated Statements of Cash Flow

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	For the year ended	
		December 31, 2019	December 31, 2018
Operating activities			
Net loss		\$ (218,952)	\$ (22,144)
Add (deduct) items not involving cash			
Unrealized gain on changes in fair value of biological assets	9	(5,480)	(404)
Realized loss on changes in fair value of biological assets		725	132
Non-cash write downs of inventory	10	14,262	2,485
Accretion and accrued interest		6,055	64
Depreciation of property, plant and equipment	11	2,976	789
Amortization of intangible assets	12	4,340	132
Share-based payments	16	12,823	7,546
Current income tax expense	19	3,959	16
Deferred income tax (recovery) expense	19	(2,335)	688
Unrealized loss on note receivable	5	1,655	—
Realized gain on investments	6	(1,400)	—
Unrealized loss (gain) on investments	6, 7	5,546	(5,180)
Revaluation of contingent consideration	8	61,851	—
Impairment of property, plant and equipment	11	2,305	—
Impairment of intangible assets and goodwill	12	70,580	188
Changes in non-cash working capital items	22	(6,823)	(9,370)
Cash outflow from operating activities		(47,913)	(25,058)
Financing activities			
Proceeds from warrants exercised	16	33,179	2,784
Proceeds from options exercised	16	2,620	800
Proceeds from loan including interest accrued	13	50,383	13,566
Proceeds from non-controlling interests	17	2,346	1,130
Loan principal and interest paid	13	(3,641)	—
Loan origination fee paid	13	—	(1,017)
Proceeds from private placement, net of share issuance costs	16	66,636	—
Proceeds from convertible debentures, net of issuance costs	15	20,343	—
Proceeds from mortgage	13	6,500	—
Lease payments	14	(1,382)	—
Cash inflow from financing activities		176,984	17,263
Investing activities			
Investment in property, plant and equipment	11	(43,341)	(11,181)
Investment in intangible assets	12	(1,725)	(1,595)
Investment in notes receivable	5	(13,742)	(1,561)
Principal and interest payments received on notes receivable	5	8,159	—
Principal and interest payments received on lease receivable	14	—	—
Sale (purchase) of investments	6	3,204	(2,500)
Investment in joint venture	7	(818)	(2,742)
Advances to joint venture partner	7	—	(2,740)
Cash portion of consideration paid in acquisition of Grander, net of cash acquired	8	(9,114)	—
Cash portion of consideration paid in acquisition of Apothecarium, net of cash acquired	8	(47,998)	—
Cash portion of consideration paid in acquisition of Ilerra, net of cash acquired	8	(32,844)	—
Cash outflow from investing activities		(138,219)	(22,319)
Decrease in cash and cash equivalents during the year		(9,148)	(30,114)
Net effects of foreign exchange		(725)	70
Cash and cash equivalents, beginning of year		21,773	51,817
Cash and cash equivalents, end of year		\$ 11,900	\$ 21,773

Supplemental cash flow information (note 22)

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

1. Nature of operations

TerrAscend Corp. (“TerrAscend” or the “Company”) was incorporated under the Ontario Business Corporations Act. on March 7, 2017. The Company’s wholly owned subsidiary, TerrAscend Canada Inc. is a Licensed Producer of medical and adult use cannabis (as such term is defined in the *Cannabis Act*) and its current principal business activities include cultivation, processing and sale of medical and adult use cannabis. TerrAscend Canada Inc. applied to Health Canada to become a Licensed Producer under the *Access to Cannabis for Medical Purposes Regulations* (the “ACMPR”) and on July 10, 2017, was granted that license (the “License”) for its 67,300 square foot Mississauga facility (the “Facility”). On February 5, 2018, TerrAscend Canada Inc. was granted an amendment to the License by Health Canada to allow for cannabis oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 and July 8, 2019 to allow for sales of dried cannabis and cannabis oil. The License expires on July 10, 2020. A further amendment to the License was granted on October 22, 2019 to allow for sales of cannabis extracts, topicals and edibles. Effective October 17, 2018, ACMPR was transitioned to The Cannabis Act. Additional activities include physician consultations, patient education and support programs carried out by the Company’s wholly owned subsidiary, Solace Health Network Inc.

On December 18, 2018, the Company’s majority owned subsidiary, TerrAscend NJ, LLC was awarded the right to apply for a vertically integrated permit in Phillipsburg, NJ, and its operations will include cultivation, processing and retail. On January 15, 2019, the Company purchased Arise Bioscience Inc. (previously known as Grander Distribution), a producer and distributor of hemp-derived wellness products to retail locations nationwide. On June 6, 2019, the Company acquired the California operations of a retail dispensary brand known as “The Apothecarium” and Valhalla Confections (“Valhalla”), a premier manufacturer of cannabis infused artisan edibles. On September 16, 2019, the Company acquired Ilera Healthcare Inc., a vertically integrated cannabis cultivator, processor, and dispensary operator in Pennsylvania. These entities comprise the Company’s U.S. operations.

The Company is listed on the Canadian Stock Exchange, having the ticker symbol TER and effective October 22, 2018, the Company began trading on OTCQX under the ticker symbol TRSSF. The Company’s registered office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements for the years ended December 31, 2019 and December 31, 2018 of the Company were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Effective January 1, 2019, the Company adopted IFRS 16. These consolidated financial statements were authorized for issue by the Board of the Directors on April 23, 2020.

Certain comparative figures have been reclassified to conform to the current year’s presentation. See Note 26.

(b) Basis of measurement

These consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In accordance with the going concern basis, these consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company’s accounting policies.

(c) Functional and presentation currency

The Company’s functional currency, as determined by management, is the Canadian dollar. Management has determined that the functional currency of its Canadian subsidiaries is the Canadian dollar and the functional

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

2. Basis of presentation (continued)

currency of its US subsidiaries is the US dollar. These consolidated financial statements are presented in Canadian dollars unless otherwise specified.

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

(e) Use of significant estimates and judgments

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates and judgements related to the following:

i) *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Management applied significant judgment and considered several factors to support this conclusion including:

- Subsequent financing – Subsequent to year-end, the Company has entered into a loan financing agreement with Canopy Growth Corporation ("Canopy Growth") in the amount of \$80,500 pursuant to a secured debenture (see Note 27);
- Market offering – the Company has the ability to offer equity in the market for significant potential proceeds to a large investor base, as evidenced by oversubscriptions on previous recent private placements;
- Sale leaseback – the Company has the ability to sell and lease back its capital properties.

ii) *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, pre-harvest and post-harvest costs, sales price and expected yields.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

2. Basis of presentation (continued)

Inventories of harvested finished goods and packaging materials are valued at the lower of cost and net realizable value. Management determines net realizable value which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be effected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

iii) *Share-based payments*

In calculating share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used.

iv) *Warrants*

In calculating the fair value of warrants issued, the Company includes key estimates such as the volatility of the Company's stock price and the risk-free interest rate.

v) *Depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization rates are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

vi) *Income taxes*

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company generating future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in classifying transactions and assessing probable outcomes of tax positions taken, and in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

vii) *Impairment of intangible assets and goodwill*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the year ended December 31, 2019, management has determined that there were indicators of impairment and as a result recorded an impairment of intangible assets of \$4,367 (December 31, 2018 – \$188) and impairment of goodwill of \$66,213 (December 31, 2018 – \$nil).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

2. Basis of presentation (continued)

viii) *Acquisitions*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

ix) *Contingent Consideration*

Contingent consideration payable as the result of a business combination is recorded at the date of acquisition at fair value. The fair value of contingent consideration is subject to significant judgement and estimates. Subsequent changes to the fair value of contingent consideration are measured at each reporting date, with changes recognized through profit or loss.

x) *Incremental borrowing rates*

In determining the appropriate measurement of our lease liabilities and the fair value of convertible debentures, estimates are required with respect to the discount rate applied. The discount rate applied reflects the interest rate that we would have to pay to borrow a similar amount at a similar term and with a similar security.

xi) *Sales returns and price adjustments*

In Canada, government customers typically have a right of product return, and in some cases, the right to pricing adjustments for products that are subsequently discounted or sold for a lower price in another jurisdiction. The estimation of potential future returns and pricing adjustments includes the use of management estimates and assumptions that may not be certain given the evolving nature of the industry.

xii) *Control, joint control or level of influence*

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. Information about these judgments is included in Note 7 and Note 8.

3. Significant accounting policies

Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period. The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are under the scope of IAS 16 – Property, Plant and Equipment, but have a useful life of less than one year.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. Amortization of acquired cannabis production licenses are also considered to be indirect costs of biological assets. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' on the statement of loss in the period that the related product is sold. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss. Biological assets are measured at their fair value less costs to sell on the consolidated statements of financial position.

Inventory

Inventories of harvested finished goods and packaging materials are valued at the lower of cost and net realizable value. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. Amortization of acquired cannabis production licenses are also considered to be indirect costs of inventory. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of goods sold' on the statement of loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the statement of loss. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the standard cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following terms:

Buildings and improvements	15-30 years
Irrigation and lighting systems	20 years
Security systems	5 years
Machinery & equipment	5-7 years
Office furniture & equipment	3-7 years
Right of use assets	Lease term

An asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the statement of loss and comprehensive loss. Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

The Company capitalizes borrowing costs on qualifying capital construction projects. Upon the asset becoming available for use, capitalization of borrowing costs ceases, and depreciation commences on a straight-line basis over the estimated useful life of the related asset.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets are acquired at fair value at the acquisition date. Amortization is provided on a straight-line basis over the assets' estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each period end and any changes in estimates are accounted for prospectively. Amortization is calculated on a straight-line basis over the following terms:

Software and licenses	3 - 5 years
Intellectual property	4 - 30 years
Customer relationships	5 years
Non-compete agreements	3 years

Intellectual property relating to cultivation and dispensary licenses are amortized using a useful life consistent with the property, plant and equipment to which they relate. Brands and goodwill have indefinite useful lives.

Revenue recognition

IFRS 15 introduced a single model for recognizing sales from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRS standards. The standard requires sales to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize sales when (or as) the entity satisfies a performance obligation.

Sales are recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured. This is generally when goods have been delivered, which is also when the performance obligations have been fulfilled under the terms of the related sales contract. Sales are recorded net of discounts and incentives but inclusive of freight. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of sales. Excise taxes are netted against gross sales on the statement of net (loss) income and comprehensive (loss) income.

Business Combinations

The Company accounts for business combinations using the acquisition method when control is obtained by the Company (see Note 2(d)). The Company measures the consideration transferred, the assets acquired, and the liabilities assumed in a business combination at their acquisition-date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities which are recognized according to specific requirements. The excess of the consideration transferred to obtain control, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

Contingent consideration for a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is measured at subsequent reporting dates in accordance with IFRS 9 *Financial Instruments*, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the acquiree's former owners contractually indemnify the Company for a particular uncertainty, an indemnification asset is recognised on a basis that matches the indemnified item, subject to the contractual provisions or any collectability considerations.

Impairment of Non-Financial Assets

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, other than inventories, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets, including right-of-use assets, are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU").

Corporate assets, which include head office facilities, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU or CGU grouping is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU or CGU grouping discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping. If the CGU or CGU grouping includes right-of-use assets in its carrying amount, the pre-tax discount rate reflects the risks associated with the exclusion of lease payments from the estimated future cash flows. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU or CGU grouping exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis. Impairment losses and reversals are recognized separately from operations in the consolidated statement of loss.

For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

Investment in associates and joint ventures

Investments accounted for using the equity method include investments in associates, which are entities over which the Company exercises significant influence, and joint arrangements representing joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company accounts for its investments in associates and joint ventures using the equity method of accounting. Under the equity method, investments in associates and joint ventures are initially recognized in the consolidated statements of financial position at cost, and subsequently adjusted for the Company's share of the net income (loss), comprehensive income (loss) and distributions of the investee. The carrying value is assessed for impairment at each statement of financial position date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years. Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

For the year ended December 31, 2019, several of the Company's U.S. subsidiaries are subject to Internal Revenue Code ("IRC") Section 280E. This tax provision disallows tax deductions and credits from gross income attributable to a trade or business of trafficking in U.S. controlled substances (labeled as Schedule I or Schedule II). Under current U.S. federal law, cannabis is a Schedule I controlled substance, therefore the provisions of Section 280E would apply. Since Section 280E denies deductions on gross "income" (and not revenues), the determination of gross income allows for a deduction from revenues relating to direct purchases or Section 471 inventory costs. Currently, the only U.S. state to decouple from the federal Section 280E provision is California, thereby allowing all ordinary and necessary deductions at that state level.

IFRS 9 – Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- i) those to be measured subsequently at fair value through profit or loss ("FVTPL");
- ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and
- iii) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income. The Company reclassifies financial assets if and when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***3. Significant accounting policies (continued)**

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk. Rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Summary of the Company's classification and measurements of financial assets and liabilities:

	IFRS 9	
	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value
Receivables	Amortized cost	Amortized cost
Notes receivables	FVTPL	Fair value
Investments	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Contingent consideration payable	FVTPL	Fair value
Convertible debentures	Amortized cost	Amortized cost

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

Share capital

Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a reduction in equity.

Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the residual method.

Share-based payments

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options and warrants any historical fair value in the warrants and share-based payment reserve is allocated to share capital. Upon cancellation and forfeitures of stock options and warrants any historical fair value in the warrants and share-based payment reserve is adjusted to the consolidated statements of loss and comprehensive loss and to deficit, respectively. Upon expiry of stock options and warrants, any historical fair value in the warrants and share-based payment reserve is allocated to deficit.

Convertible debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

Earnings (loss) per share and diluted earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its ordinary shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common and proportionate voting shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common and proportionate voting shares outstanding, adjusted for the effects of all dilutive potential common and proportionate voting shares. Proportionate voting shares are converted to their common share equivalent of one thousand common shares for every one proportionate voting share for the purposes of calculating basic and diluted earnings (loss) per share. In a period of losses, the options are excluded in the determination of dilutive net loss per share because their effect is antidilutive.

New standards, amendments and interpretations adopted

On January 1, 2019, the Company adopted IFRS 16 Leases. The impact of adoption was not material. See Note 14 for additional information.

New standards, amendments and interpretations not yet adopted

The IASB has issued the following standards, amendments and interpretations which have not been early adopted in these consolidated financial statements.

IFRS 3 – “Business Combinations (Amendment)”, the amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted. This standard is not expected to have a material impact on the Company in the current or future reporting periods.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***4. Sales and receivables, net of expected credit losses**

	December 31, 2019	December 31, 2018
Trade receivables	\$ 7,994	\$ 5,441
Sales tax receivables	1,158	1,454
Other receivables	1,088	2,746
Expected credit losses	(607)	—
Sales return provisions	(2,010)	—
Receivables, net of expected credit losses	\$ 7,623	\$ 9,641

Sales tax receivable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada. Other receivables at December 31, 2019 are related to amounts due from the sellers of the Apothecarium (Note 8). Other receivables at December 31, 2018 are related to amounts receivable from the Solace Rx joint venture partner. This amount became part of the consideration paid in the acquisition of Solace Rx (note 7).

Expected credit losses have been recorded in the amount of \$607 (December 31, 2018 – \$nil) and are included in trade receivables on the consolidated statements of financial position and in general and administrative operating expenses on the consolidated statements of loss.

	December 31, 2019	December 31, 2018
Gross sales	\$ 92,385	\$ 7,250
Excise taxes	(5,507)	(424)
Sales return provisions	(2,010)	—
Sales, net of excise tax	\$ 84,868	\$ 6,826

5. Notes receivable

The reconciliation of the Company's notes receivable is as follows:

	Think AHLOT	F&F	Howard Street	RHMT	State Flower	Total
Carrying amount, December 31, 2017	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of note receivable	1,500	—	—	—	—	1,500
Increase in fair value	61	—	—	—	—	61
Carrying amount, December 31, 2018	1,561	—	—	—	—	1,561
Issuance of note receivable	—	4,188	6,381	1,595	5,766	17,930
Unrealized loss	(1,655)	—	—	—	—	(1,655)
Interest accrued	94	—	106	25	276	501
Principal and interest payments	—	—	(6,528)	(1,631)	—	(8,159)
Conversion of note receivable to common shares	—	(4,188)	—	—	—	(4,188)
Foreign exchange impact	—	—	41	11	(56)	(4)
Carrying amount, December 31, 2019	\$ —	\$ —	\$ —	\$ —	\$ 5,986	\$ 5,986

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

5. Notes receivable (continued)

Think AHLOT Corporation

On April 28, 2018, the Company issued \$1,500 in a convertible note to Think AHLOT Corporation (“AHLOT”), a cannabis innovation company that creates cannabis products and accessories. The proceeds of the convertible note are being utilized by AHLOT towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, the Company, through its wholly owned subsidiary, TerrAscend Canada, provides fulfillment and distribution services on behalf of AHLOT that enabled AHLOT to commence the development and sale of licensed cannabis products for AHLOT’s product portfolio. The convertible note bears interest at 6% per annum, compounded annually and matured on July 16, 2019. Upon the maturity date, the principal and accrued interest was to be automatically converted into Class A common shares based on a conversion price that will vary depending on the total sales earned by AHLOT as of the maturity date.

On July 16, 2019, the Company amended the terms of the convertible note to the following: (i) Upon the maturity date, the principal and accrued interest will be automatically converted into Class A common shares based on a conversion price that is \$8 million divided by the total number of common shares and Class A common shares outstanding of AHLOT on a fully diluted basis; (ii) Maturity date of the convertible note is April 16, 2020.

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that its note receivable was impaired. The Company considers external and internal factors, including overall financial performance of the note holder and relevant entity-specific factors, as part of this assessment. The following factors were identified as impairment indicators:

- i. Perceived enterprise value – The Company’s management determined that the equity of AHLOT holds only nominal value and any shares of AHLOT received on conversion of the note receivable would not represent material value to the Company; and
- ii. Expected cash recovery – The Company’s management determined that AHLOT does not have the available cash required to pay the note receivable and accrued interest and is unlikely to obtain it in the near future.

As a result of these determinations, management concluded that the carrying value of the AHLOT note receivable was higher than the recoverable amount and recorded unrealized losses for the year ended December 31, 2019 totalling \$1,655 (2018 - \$nil). As at December 31, 2019, the note receivable from AHLOT has been recorded at its fair value of \$nil (December 31, 2019 - \$1,561).

Fire & Flower Inc.

On February 13, 2019, the Company converted its existing 3,125,000 common shares of Fire and Flower Inc. (“F&F”), a proposed private retailer for adult use cannabis sales in select provinces, for a \$2.5 million unsecured, interest free convertible debenture (the “Convertible Debenture”) that will mature on November 30, 2019. Prior to the maturity date, F&F may convert, in whole or part, the outstanding principal of the Convertible Debenture into common shares of F&F calculated as the principal amount to be converted divided by the lesser of: (i) \$0.80; and (ii) the last closing price of the F&F common shares on the exchange immediately before the conversion date. On the maturity date, the Company may convert, in whole or in part, the outstanding principal of the convertible debenture into common shares of F&F calculated as the principal amount to be converted divided by \$0.80.

On June 6, 2019, the Company converted the convertible debenture back to 3,125,000 common shares of F&F (Note 6).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

5. Notes receivable (continued)

RHMT, Howard Street

On February 11, 2019, the Company announced the signing of definitive securities purchase agreements (the “Purchase Agreements”) with RHMT, LLC (“RHMT”), Deep Thought, LLC (“Deep Thought”) and Howard Street Partners, LLC (“Howard Street”) to facilitate a significant investment in three entities in California operating the retail dispensary brand known as “The Apothecarium”. The purchase agreements also include the acquisitions of a vertically integrated operation in Nevada with cultivation, edible manufacturing and an Apothecarium retail location, as well as Valhalla Confections, a provider of leading premium edible products. On March 1, 2019, as part of the Purchase Agreement, the Company issued a \$6,381 (US\$4.8 million) note receivable to Howard Street and a \$1,595 (US\$1.2 million) note receivable to RHMT. The notes receivable bear interest at 6% per annum, compounded annually and will mature at the earlier of:

- i) February 28, 2020;
- ii) Closing of the Purchase Agreement;
- iii) 90 days after the termination of the Apothecarium Purchase Agreements

On June 6, 2019, upon the closing of Apothecarium the outstanding principal amount and interest receivable from RHMT and Howard Street was repaid.

State Flower

On July 18, 2019, the Company provided US\$2.85 million in cash and received a secured convertible note receivable from ABI SF LLC (“State Flower”), which operates a California cannabis cultivation facility and the State Flower brand. Interest on the note was 12% per annum compounded annually with a maturity date of July 15, 2023 or earlier based on certain conditions. On August 28, 2019, the Company announced the signing of a definitive agreement to acquire 49.9% of the equity of State Flower for total consideration of US\$2.85 million from conversion of the note. The Company also agreed to purchase the remaining 50.1% equity of State Flower under a Securities Purchase Agreement at a future date to be determined for total consideration based on future sales over a predetermined period, which is subject to regulatory approvals by various local and state authorities. The Company also extended to State Flower a separate line of credit of up to US\$3.75 million for cultivation facility improvements to expand its production capacity, with US\$1.55 million (\$2,041) drawn on the line of credit as of December 31, 2019.

As at December 31, 2019, the amounts receivable from State Flower have been recorded at their fair value of \$5,986 (December 31, 2018 - \$nil), including \$276 (December 31, 2018 - \$nil) of accrued interest receivable. On January 23, 2020, the Company completed the conversion of the note principal and accrued interest into 4,880.44 Class B units of State Flower representing a 49.9% equity interest. The Company will consolidate State Flower into its financial statements beginning on the date it obtained control, which was the conversion date.

6. Investments

On April 20, 2018, the Company purchased 3,125,000 units of F&F for an aggregate of \$2,500 or \$0.80 per unit, amounting to approximately 5% of the outstanding F&F shares. Each unit is comprised of one common share and one common share purchase warrant in F&F. Each common share purchase warrant entitles the Company to purchase one additional common share of F&F at a price of \$1.05 within twenty-four months.

On February 13, 2019, the Company converted its existing 3,125,000 common shares of F&F for a \$2.5 million unsecured, interest free convertible debenture (the “Convertible Debenture”) that would mature on November 30, 2019.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***6. Investments (continued)**

On June 6, 2019, the Company converted the convertible debenture back to 3,125,000 F&F common shares (Note 5).

On October 30, 2019, the Company sold 500,000 shares of F&F at a price of \$1.15 for total proceeds of \$575, less \$5 in brokerage commission charges.

On November 20, 2019, the Company sold 500,000 shares of F&F at a price of \$1.0003 for total proceeds of \$500, less \$5 in brokerage commission charges.

On November 21, 2019, the Company sold its remaining 2,125,000 shares of F&F at a price of \$1.0018 for total proceeds of \$2,129, less \$21 in brokerage commission charges. As at December 31, 2019, the investment in F&F warrants has been recorded at its fair value of \$465 (December 31, 2018 - \$7,690).

	Number of Shares	Number of Warrants	\$
Fair value, December 31, 2017	—	—	—
Units purchased	3,125,000	3,125,000	2,500
Unrealized gain	—	—	5,190
Fair value, December 31, 2018	3,125,000	3,125,000	7,690
Units converted to notes receivable - F&F	(3,125,000)	—	(4,188)
Units converted from notes receivable - F&F	3,125,000	—	3,594
Shares sold - F&F	(3,125,000)	—	(3,204)
Realized gain on sale of F&F shares	—	—	1,400
Unrealized loss - F&F	—	—	(4,827)
Fair value, December 31, 2019	—	3,125,000	465

The fair value of F&F warrants outstanding as at December 31, 2019 was estimated using the Black-Scholes valuation model based on the following weighted average assumptions:

	Weighted Average Assumptions	
	December 31, 2019	December 31, 2018
Volatility	100%	105%
Risk-free interest rate	1.71%	2.07%
Expected life (years)	0.31	1.85
Dividend yield	Nil	Nil
Number of F&F warrants valued	3,125,000	3,125,000
F&F estimated share price	\$ 1.05	\$ 0.88
Value per F&F warrant	\$ 0.1489	\$ 0.4571

7. Investment in Solace Rx

On July 18, 2017, the Company entered into a Unanimous Shareholder agreement with Theomar Ltd. (“Theomar”) and incorporated Solace Rx, a jointly operated entity. The Company and Theomar each owned 50% of Solace Rx and both parties in various capacities assisted in the development and construction of a Drug Preparation Premise (“DPP”) for Solace Rx. Until Solace Rx achieves a break-even point, expenses incurred will be funded by the Company and Theomar on a pro-rata ownership basis as shareholder loans.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***7. Investment in Solace Rx (continued)**

Management assessed that the Company's investment in Solace Rx was a joint venture in accordance with *IFRS 11 Joint Arrangements*. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.

Carrying amount, December 31, 2017	\$	—
Investment in joint venture		2,742
Share of investee net loss		(10)
Carrying amount, December 31, 2018		2,732
Investment in joint venture		818
Share of investee net loss		(24)
Derecognition of investment in joint venture		(3,526)
Carrying amount, June 3, 2019	\$	—

As at December 31, 2019, the Company has a receivable of \$nil (December 31, 2018 - \$2,746) from Theomar for its portion of contributions to Solace Rx (note 4).

On June 3, 2019, the Unanimous Shareholder Agreement was amended resulting in the Company having 65% ownership in Solace Rx. Subsequent to the amendment, Management assessed that the Company controls Solace Rx and in accordance with IFRS, consolidated the financial results of Solace Rx from June 3, 2019 onwards in these consolidated financial statements.

	\$
Receivables	32
Property, plant and equipment	6,570
Goodwill	2,407
Accounts payable and accrued liabilities	(26)
Non-controlling interest	(2,269)
Net assets acquired	6,714
Non-cash consideration	
Investment in Solace Rx	3,425
Other receivable	3,289
Total consideration	6,714

Goodwill arose on this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected sales growth and future market and product development. This benefit was not recognized separately from goodwill because it does not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions was subsequently fully impaired as at December 31, 2019. See Note 12.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***8. Acquisitions****Acquisition of the Assets of Grander Distribution, LLC**

On January 15, 2019, the Company through a wholly owned subsidiary, Arise Bioscience Inc. ("Arise"), completed the acquisition of substantially all of the assets of Grander Distribution, LLC ("Grander"), a producer and distributor of innovative hemp-derived wellness products. As consideration, TerrAscend paid \$16,797 (US\$12.7 million), comprising \$8,623 (US\$6.5 million) in cash, \$669 (US\$0.5 million) in the form of a working capital adjustment and 1,362,343 common shares of TerrAscend. The fair value of the common shares was \$6,729 (US\$5.1 million) as at January 15, 2019. Subject to meeting certain sales milestones, the Company will pay up to an additional \$12,988 (US\$10 million) in cash or share considerations. The total value of the potential purchase consideration payable by the Company under the terms of the agreement is approximately \$29,785 (US\$22.7 million), and the fair value of the contingent consideration was \$776 (US\$0.6 million) at acquisition. The fair value of the contingent consideration as at December 31, 2019 is \$nil.

On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been \$22,700 for the year ended December 31, 2019 and a net loss of \$6,800.

	\$
Cash and cash equivalents	178
Receivables	332
Inventory	995
Prepaid expenses and deposits	54
Right-of-use asset	187
Property, plant and equipment	29
Intangible assets	9,552
Goodwill	6,647
Accounts payable and accrued liabilities	(1,008)
Lease liabilities	(169)
Net assets acquired	16,797
<hr/>	
Consideration paid in cash	8,623
Consideration paid in shares	6,729
Contingent consideration payable	776
Working capital adjustment	669
Total consideration	16,797
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Consideration paid in cash	9,292
Less: cash and cash equivalents acquired	178
Net cash outflow	9,114

Acquisition related expense included in transaction and restructuring costs	61
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Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected sales growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***8. Acquisitions (continued)**Acquisition of The Apothecarium

On June 6, 2019, the Company, through a wholly owned subsidiary, WDB Holding CA, Inc. (“WDB CA”), acquired the following group of entities (collectively the “California Apothecarium Entities”).

- RHMT, LLC, Deep Thought, LLC, and Howard Street Partners, LLC. (collectively the “SF Entities”) – 49.9%; and
- BTHHM Berkeley, LLC, PNB Noriega, LLC, and V Products, LLC (collectively the “NoCal Entities”) – 100%

As consideration, TerrAscend paid \$95,990 (US\$71.8 million), comprising \$49,281 (US\$36.8 million) in cash, \$1,399 (US\$1.1 million) in the form of a working capital adjustment, contingent consideration of \$4,051 (US\$3 million) and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration as at June 6, 2019 was \$41,259 (US\$30.9 million). The contingent consideration is the expected consideration payable to acquire the remaining 50.1% of the SF Entities, which comprises 100% of its preferred shares, subject to regulatory approval. On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been \$38,200 for the year ended December 31, 2019 and a net loss of \$14,300, excluding the impact of losses related to intangible assets and goodwill impairment of \$67,671 as a result of lower than expected revenue and profitability forecasts as compared to the acquisition date forecast.

	\$
Cash and cash equivalents	2,682
Receivables	25
Inventory	2,742
Prepaid expenses and other assets	831
Lease receivable	949
Right-of-use asset	15,179
Property, plant and equipment	3,418
Indemnification asset (see Note 19)	15,385
Intangible assets	49,499
Goodwill	64,665
Accounts payable and accrued liabilities	(3,892)
Lease liabilities	(16,126)
Deferred tax liability	(21,015)
Corporate income tax payable (see Note 19)	(18,352)
Net assets acquired	95,990
Consideration paid in cash	49,281
Consideration paid in shares	41,259
Contingent consideration	4,051
Working capital adjustment	1,399
Total consideration	95,990
Consideration paid in cash	50,680
Less: cash and cash equivalents acquired	2,682
Net cash outflow	47,998

Acquisition related expense included in transaction and restructuring costs	1,837
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Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

8. Acquisitions (continued)

Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected sales growth and future market and product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes. The goodwill arising on this acquisition was subsequently fully impaired as at December 31, 2019. See Note 12.

Costs related to this transaction were \$1,837, including legal, accounting, due diligence and other transaction-related expenses. As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of the Apothecarium principals. As a result, the non-controlling interest in The Apothecarium does not qualify for equity treatment under IAS 32, Financial Instruments: Presentation. Under the put/call arrangement, the non-controlling interest is redeemable by either party to the agreement after certain regulatory approvals are met. The Company has classified the non-controlling interest as a liability on the consolidated statements of financial position as other contingent consideration payable. The initial 50.1% non-controlling interest liability was recorded at a fair value of \$4,051 million. Any fair value adjustments to the liability are recorded in the consolidated statements of loss. No profit or loss with respect to the Apothecarium operations is allocated to the non-controlling interest.

Acquisition of Ilera Healthcare

On September 16, 2019, the Company, through a wholly owned subsidiary, WDB Holding PA, Inc. ("WDB PA"), acquired Ilera Healthcare ("Ilera"), one of five vertically integrated cannabis cultivator, processor, and dispensary operators in Pennsylvania. The Company acquired the following group of entities (collectively the "Pennsylvania Ilera Entities").

- Ilera Healthcare LLC, Ilera Dispensing LLC, IHC Real Estate GP, LLC, Ilera Security LLC, 235 Main Mercersburg LLC, and Ilera InvestCo I LLC – 100%; and
- IHC Real Estate LP – 50%; and
- Guadco LLC and KCR Holdings LLC – 10%

TerrAscend acquired 100% of the equity of Ilera for total consideration between \$160,764-\$293,244 (US\$125-\$225 million), paid in a combination of cash and TerrAscend shares. At closing, TerrAscend paid to the sellers \$33,120 (US\$25 million) in cash, subject to customary closing adjustments, an additional \$27,488 (US\$25 million – agreed upon value) worth of proportionate voting shares in the equity of TerrAscend equivalent to approximately 5,059.102 proportionate voting shares (which are each exchangeable for 1,000 TerrAscend common shares), and \$796 (US\$0.6 million) in working capital adjustments. Additional cash consideration of \$99,360 (US\$75 million) to \$231,840 (US\$175 million) in aggregate may be paid to the sellers based on Ilera achieving certain specified sales and profitability targets, with staged payments being made in 2020 and 2021. The fair value of the contingent consideration at acquisition was \$144,312.

On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been \$45,916 for the year ended December 31, 2019 and net income of \$16,800, excluding the impact of revaluation of contingent consideration of \$62,623.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***8. Acquisitions (continued)**

	\$
Cash and cash equivalents	1,072
Receivables	1,961
Investment	1,325
Biological assets	3,547
Inventory	4,906
Prepaid expenses and deposits	1,386
Right-of-use asset	1,990
Property, plant and equipment	20,043
Intangible assets	94,524
Goodwill	91,089
Accounts payable and accrued liabilities	(1,334)
Deferred tax liability	(7,075)
Lease liabilities	(1,971)
Non-controlling interest	(5,747)
Net assets acquired	205,716
Consideration paid in cash	33,120
Consideration paid in shares	27,488
Contingent consideration payable	144,312
Working capital adjustment	796
Total consideration	205,716
Consideration paid in cash	33,916
Less: cash and cash equivalents acquired	1,072
Net cash outflow	32,844

Acquisition related expense included in transaction and restructuring costs	617
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Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected sales growth and future market and product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes. Costs related to this transaction were \$617, including legal, accounting, due diligence and other transaction-related expenses.

Contingent consideration

Contingent consideration recorded relates to the Company's asset acquisition and business acquisitions. Contingent consideration is based upon the potential earnout of the underlying business unit and is measured at fair value using a projection model for the business and the formulaic structure for determining the consideration under the terms of the agreement. The determination of the fair value of the contingent consideration payable is primarily based on the Company's expectations of the amount of revenue to be achieved by the underlying business units within the specified time period of the agreement.

The fair value of contingent consideration is considered a Level 3 financial instrument in the fair value hierarchy. The fair value of contingent consideration was determined using a probability weighted model based on the likelihood of achieving certain revenue and EBITDA scenario outcomes. A discount rate of 11.8% was utilized to determine the present value of the liability. It is management's expectation that the full amount of \$231,840 (US\$175 million) will be paid to the sellers of Ilera.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***8. Acquisitions (continued)**

The illustrative variance of the contingent consideration as at December 31, 2019 based on a range of discount rates is outlined in the following table:

Discount Rate Sensitivity	Implied value of contingent consideration
<i>Increase of 100 Basis Points</i>	\$ 201,228
<i>Increase of 50 Basis Points</i>	202,158
<i>Decrease of 100 Basis Points</i>	204,046
<i>Decrease of 50 Basis Points</i>	205,003

Contingent consideration as at December 31, 2019 related to the above transactions is as follows:

	Grander	Apothecarium	Ilera	Total
Carrying amount, December 31, 2018	\$ —	\$ —	\$ —	\$ —
Contingent consideration recognized on acquisition	776	4,051	144,312	149,139
Revaluation of contingent consideration	(772)	—	62,623	61,851
Effects of movements in foreign exchange	(4)	(118)	(3,838)	(3,960)
Carrying amount, December 31, 2019	—	3,933	203,097	207,030
Less: current portion	—	(3,933)	(27,249)	(31,182)
Non-current contingent consideration	\$ —	\$ —	\$ 175,848	\$ 175,848

On December 27, 2019, the Company and the sellers of Ilera amended the terms of the transaction to reduce the amount deposited into escrow from \$16,237 (US\$12.5 million) to \$649 (US\$0.5 million). The Company also agreed to pay to the sellers of Ilera an additional amount equal to \$2,269 (US\$1.75 million), payable in five installments, due every three months beginning April 15, 2020. This additional amount has been included in the loss on revaluation of contingent consideration in the consolidated statement of loss for the current period.

On January 15, 2020, the Company made the first earnout payment to the former owners of Ilera in the amount of \$25,137 (US\$19.35 million), with an additional \$15,588 (US\$12 million) deferred until the final earnout payment is due, no later than March 15, 2021.

9. Biological assets

The Company's biological assets consist of 30,413 cannabis plants as at December 31, 2019. The reconciliation of biological assets is as follows:

	Canada	United States	December 31, 2019	December 31, 2018
Opening amount	\$ 545	\$ —	\$ 545	\$ —
Increase in fair value due to biological transformation	611	4,869	5,480	404
Additions on Ilera Acquisition	—	3,547	3,547	—
Capitalized costs	2,532	1,265	3,797	—
Transferred to inventories upon harvest	(3,003)	(4,881)	(7,884)	(143)
Fair value less costs to sell of cultivated plants	685	4,800	5,485	261
Cannabis seeds purchased (planted)	(1)	—	(1)	284
Ending balance	\$ 684	\$ 4,800	\$ 5,484	\$ 545

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Biological assets (continued)**

The fair value measurements for biological assets have been categorized as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail recreational or medical cannabis market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from the flowering stage to the point of harvest and assumes that the value of clones is nominal. The Company also deducts a distribution margin of 10% along with the excise price when estimating the fair value of biological assets.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

Dry bud

The dry bud model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average December 31, 2019	Weighted Average December 31, 2018	Weighted Average December 31, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	21%	7%	N/A
Expected yields for cannabis plants (average grams per plant)	107 grams	52 grams	38 grams	N/A
Expected number of growing weeks	15 weeks	15 weeks	13 weeks	N/A
Estimated selling price (per gram)	\$ 5.26	\$ 8.20	\$ 8.51	N/A
Post-harvest cost to complete and sell (per gram)	\$ 2.43	\$ 4.43	\$ 2.36	N/A

Trim

The trim model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average December 31, 2019	Weighted Average December 31, 2018	Weighted Average December 31, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	18%	7%	N/A
Expected yields for cannabis plants (average grams per plant)	81 grams	62 grams	71 grams	N/A
Expected number of growing weeks	15 weeks	15 weeks	13 weeks	N/A
Estimated selling price (per gram)	\$ 1.00	\$ 3.20	\$ 2.42	N/A
Post-harvest cost to complete and sell (per gram)	\$ 0.22	\$ 1.75	\$ 0.14	N/A

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Biological assets (continued)**

The following table presents the effect of a 10% change on the fair valuation of biological assets as at December 31, 2019 and December 31, 2018 which would be reported as part of the gross profit (loss) on the statement of loss and comprehensive loss.

	Canada		United States	
	10% change as at December 31, 2019	10% change as at December 31, 2018	10% change as at December 31, 2019	10% change as at December 31, 2018
Weighted average of expected loss of plants until harvest	\$ 39	\$ 26	21	N/A
Expected yields for cannabis plants (average grams per plant)	39	26	480	N/A
Expected number of growing weeks	27	12	272	N/A
Estimated selling price (per gram)	112	57	700	N/A
Post-harvest cost to complete and sell (per gram)	51	25	220	N/A

10. Inventory

The Company's inventory of dry cannabis and oil includes both purchased and internally produced inventory. The Company's inventory is comprised of the following items:

	December 31, 2019	December 31, 2018
Raw materials	\$ 9,911	\$ 14,016
Finished goods	5,628	610
Work in process	3,439	—
Accessories	265	33
Supplies and consumables	1,179	185
	\$ 20,422	\$ 14,844

During the year ended December 31, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$9,184 (December 31, 2018 - \$2,485). Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In addition, during the year ended December 31, 2019, management wrote off \$5,078 of inventory that it deemed unsaleable. Total non-cash write-offs of inventory for the year-ended December 31, 2019 were \$14,262.

Total inventory acquired through business combinations for the year ended December 31, 2019 was \$8,643.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***11. Property, plant and equipment**

	Assets in Land	Process	Buildings and Improvements	Irrigation & Lighting Systems	Security Systems	Machinery & Equipment	Office Furniture & Equipment	Right of Use Assets	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at December 31, 2018	994	6,786	14,715	809	703	1,083	1,350	—	26,440
Effect of adoption of IFRS 16, January 1, 2019	—	—	—	—	—	—	—	234	234
Additions	3,419	18,543	16,105	204	39	4,330	701	3,918	47,259
Effect of derecognition	—	—	—	—	—	—	—	(894)	(894)
Additions on Grandeur acquisition	—	—	—	—	—	10	19	187	216
Additions on Apothecarium acquisition	—	—	2,714	—	—	29	675	15,179	18,597
Additions on Solace Rx acquisition	—	6,044	—	—	—	526	—	—	6,570
Additions on Ilera Acquisition	372	—	15,804	—	—	3,488	379	1,990	22,033
Impairment	—	(2,121)	—	—	—	(184)	—	—	(2,305)
Effects of movements in foreign exchange	(79)	(157)	(657)	—	—	(114)	(48)	(488)	(1,543)
Balance at December 31, 2019	4,706	29,095	48,681	1,013	742	9,168	3,076	20,126	116,607
Accumulated Depreciation									
Balance at December 31, 2018	—	—	644	46	105	—	218	—	1,013
Depreciation	—	—	855	42	143	263	514	1,159	2,976
Effects of movements in foreign exchange	—	—	(13)	—	—	(3)	5	(21)	(32)
Balance at December 31, 2019	—	—	1,486	88	248	260	737	1,138	3,957
Net book value at December 31, 2019	4,706	29,095	47,195	925	494	8,908	2,339	18,988	112,650

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***11. Property, plant and equipment (continued)**

	Assets in Land Process	Building and Improvements	Irrigation & Lighting Systems	Security System	Machinery & Equipment	Office Furniture & Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance at December 31, 2017	994	371	12,774	707	152	—	261 15,259
Additions	—	6,415	1,941	102	551	1,083	1,089 11,181
Balance at December 31, 2018	994	6,786	14,715	809	703	1,083	1,350 26,440
Accumulated Depreciation							
Balance at December 31, 2017	—	—	191	11	1	—	21 224
Depreciation	—	—	453	35	104	—	197 789
Balance at December 31, 2018	—	—	644	46	105	—	218 1,013
Net book value at December 31, 2018	994	6,786	14,071	763	598	1,083	1,132 25,427

As at December 31, 2019, assets in process of \$29,095 (December 31, 2019 – \$6,786) are not being depreciated. Depreciation will commence when the related construction projects are complete and facilities ready for use. During the year ended December 31, 2019, the Company capitalized \$836 of borrowing costs in assets in process using a weighted average capitalization rate of 11.82%.

Right of use assets are comprised entirely of the Company's leased premises and offices and are depreciated on a straight-line basis over each respective lease term.

For the year ended December 31, 2019, \$970 (December 31, 2018 – \$388) of depreciation was capitalized into biological assets and inventory and expensed to cost of sales upon the sale of goods.

Impairments

The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. During the year ended December 31, 2019 management noted indicators of impairment at the asset specific level.

Asset specific impairments

During the year ended December 31, 2019, the Company determined that Solace Rx's proposed Drug Preparation Premises ("DPP") was no longer commercially viable and ceased all further construction and operations, which is an indicator of impairment. The fair value of the DPP was determined based on a third-party appraisal using a fair value less costs to dispose approach. As a result, the Company recognized a \$2,305 impairment loss for the DPP for the year ended December 31, 2019. The DPP, and the corresponding impairment loss, is allocated to the Canadian operating segment (Note 21).

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Intangible assets and goodwill**

	Software & Licenses \$	Intellectual Property \$	Brand Name \$	Customer Relationships \$	Non- Compete Agreements \$	Goodwill \$	Total \$
Cost							
Balance at December 31, 2018	1,698	417	—	—	—	—	2,115
Additions	955	30	740	—	—	—	1,725
Additions on Grandeur acquisition	10	—	1,861	5,887	1,794	6,647	16,199
Additions on Apothecarium acquisition	—	30,435	19,064	—	—	64,665	114,164
Additions on Solace Rx acquisition	—	—	—	—	—	2,407	2,407
Additions on Ilera acquisition	—	78,494	16,030	—	—	91,089	185,613
Impairment	(223)	(417)	(3,865)	—	—	(66,213)	(70,718)
Effects of movements in foreign exchange	(5)	(2,428)	(851)	(106)	(41)	(2,823)	(6,254)
Balance at December 31, 2019	2,435	106,531	32,979	5,781	1,753	95,772	245,251
Accumulated Amortization							
Balance at December 31, 2018	69	21	—	—	—	—	90
Amortization	429	2,064	—	1,242	605	—	4,340
Impairment	(74)	(64)	—	—	—	—	(138)
Effects of movements in foreign exchange	—	(31)	—	(131)	(27)	—	(189)
Balance at December 31, 2019	424	1,990	—	1,111	578	—	4,103
Net book value at December 31, 2019	2,011	104,541	32,979	4,670	1,175	95,772	241,148

For the year ended December 31, 2019, \$847 (December 31, 2018 – \$nil) of amortization was capitalized into biological assets and inventory and expensed to cost of sales upon the sale of goods.

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit (“CGU”) or group of CGUs were impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment. The following factors were identified as impairment indicators:

- i. Sales decline – Constraints in the retail distribution network, including a slower than expected roll-out of retail stores in Canada and regulations impacting recreational vape sales, has resulted in a decrease of expected sales and profitability as compared to outcomes initially forecasted by management;
- ii. Change in strategic plans – The Company’s management determined that certain business units were no longer commercially viable and decided to halt all further construction and operations;
- iii. Decline in stock price and market capitalization – As at December 31, 2019, the carrying amount of the Company’s total net assets exceeded the Company’s market capitalization.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Intangible assets and goodwill (continued)**

The Company allocated goodwill to its Canadian and United States (“US”) operating segments based on the geographic location of the entity to which the goodwill is attributable, as this represented the lowest level at which management monitored goodwill. As the Canada and US operating segments each comprise various CGUs, management tested the individual CGUs, which had indicators of impairment, for impairment before the operating segment which contains the associated goodwill. The recoverable amount of all CGUs was determined based on a fair value less costs to dispose (“FVLCD”) method using level 3 inputs in a discounted cash flow (“DCF”) model. The significant assumptions applied in the determination of the recoverable amount are described as follows:

- i. Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The forecasts were extended to a total of five years (with a terminal year thereafter);
- ii. Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth;
- iii. Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital (“WACC”). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields; and
- iv. Tax rate: The tax rates used in determining the future cash flows were those substantively enacted at the respective valuation date.

Key assumptions used in calculating the recoverable amount for each CGU grouping tested for impairment as at December 31, 2019 is outlined in the following table:

	Florida CGU grouping	California CGU grouping	Pennsylvania CGU grouping
Terminal value growth rate	3.0%	3.0%	3.0%
Discount rate	19.5%	11.0%	13.5%
Forecasted sales growth rate (average of next five years)	20.8%	16.4%	51.4%
Recoverable amount	\$ 17,014\$	29,598\$	727,492

The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital (“WACC”).

Canadian Pharmaceutical Research CGU

The Company’s Canadian Pharmaceutical Research CGU represents its operations dedicated to the research and development of cannabis biotechnology, including the development of novel formulations and delivery forms, the reconstitution, dilution and preparation of drug preparations for health care practitioners and institutions, and the sale and distribution of medical cannabis. This CGU is attributed to the Company’s Canadian operating segment. Management obtained a third-party appraisal to determine the CGU’s fair value and applied it against the net book value of the assets less fixed costs to dispose of 2%. As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of \$5,214 for the year ended December 31, 2019 (December 31, 2018 – \$188). Management allocated the impairment loss specifically to the assets it identified as impaired, with no individual assets being reduced below its recoverable amount. Management allocated \$502 of impairment losses to the CGU’s software, licenses and intellectual property, \$2,407 of impairment losses to goodwill and \$2,305 of impairment losses to property, plant and equipment (Note 11).

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Intangible assets and goodwill (continued)***Canadian Cannabis Operations CGU*

The Company's Canadian Cannabis operations CGU represents its operations dedicated to the cultivation, processing and sale of cannabis. This CGU is attributed to the Company's Canadian operating segment. Management obtained a third-party appraisal to determine the CGU's fair value and applied it against the net book value of the assets less fixed costs to dispose of 2%. As a result of the impairment test, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment.

Florida CGU grouping

The Company's Florida CGU grouping represents its operations dedicated to the sale of hemp derived products within the state of Florida. This CGU grouping is attributed to the Company's United States operating segment. As a result of the impairment test, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment. An increase in the discount rate of 50 basis points would cause an impairment in the CGU grouping.

California CGU grouping

The Company's California CGU grouping represents its operations dedicated to the sale of cannabis products and accessories at retail dispensaries within the state of California. Each retail store is considered to be a CGU, however for the purposes of the goodwill impairment tests, all retail stores have been grouped together. This CGU grouping is attributed to the Company's United States operating segment. As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of \$67,671 for the year ended December 31, 2019 (December 31, 2018 – \$nil). Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated \$3,865 of impairment losses to the CGU's brand name and \$63,806 of impairment losses to goodwill.

Pennsylvania CGU grouping

The Company's Pennsylvania CGU grouping represents its operations dedicated to the cultivation and sale of cannabis products within the state of Pennsylvania. This CGU grouping is attributed to the Company's United States operating segment. As a result of the impairment test, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment. An increase in the discount rate of 50 or 100 basis points would not cause an impairment in the CGU grouping.

As a result of these determinations, management recorded impairment losses for the year ended December 31, 2019 totalling \$4,367 and \$66,213 for intangible assets and goodwill, respectively (December 31, 2018 - \$188 and \$nil) and \$2,305 for property, plant and equipment (December 31, 2018 - \$nil). Impairment losses were recognized due to a change in overall industry/market conditions, a change in management's forecasted sales and profitability outlook and a realignment and refocus of strategic plans to meet market demand.

Sensitivity analysis of discount rates to show the difference in implied recoverable amounts is as follows:

Discount Rate Sensitivity	Implied Recoverable Amount	
	Florida CGU grouping	California CGU grouping
<i>Increase of 100 Basis Points</i>	\$ 15,632	\$ 24,255
<i>Increase of 50 Basis Points</i>	16,304	26,763
<i>Decrease of 50 Basis Points</i>	17,778	32,826
<i>Decrease of 100 Basis Points</i>	18,588	36,530

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Intangible assets and goodwill (continued)**

Intangible assets for the year ended December 31, 2018 were as follows:

	Software \$	Patient List \$	Intellectual Property \$	Website \$	Total \$
Cost					
Balance at December 31, 2017	103	250	—	—	353
Additions	1,595	—	—	—	1,595
Additions on Ascendant Lab asset acquisition	—	—	417	—	417
Impairment	—	(250)	—	—	(250)
Balance at December 31, 2018	1,698	—	417	—	2,115
Accumulated Amortization					
Balance at December 31, 2017	8	12	—	—	20
Amortization	61	50	21	—	132
Impairment	—	(62)	—	—	(62)
Balance at December 31, 2018	69	—	21	—	90
Net book value at December 31, 2018	1,629	—	396	—	2,025

13. Loans payable

	Credit facility	Mortgage payable	Loans from related parties	December 31, 2019	December 31, 2018
Opening carrying amount	\$ 12,683	\$ —	\$ —	\$ 12,683	—
Loan principal	47,085	6,500	3,298	56,883	13,566
Loan discount- origination fee paid	—	—	—	—	(1,017)
Fair value of loan at inception	59,768	6,500	3,298	69,566	12,549
Interest accretion	5,105	—	—	5,105	64
Principal and interest paid	(3,569)	(72)	—	(3,641)	—
Effects of movements in foreign exchange	(1,613)	—	(51)	(1,664)	70
Ending carrying amount	\$ 59,691	\$ 6,428	\$ 3,247	\$ 69,366	12,683
Less: current portion	(59,691)	(130)	(3,247)	(63,068)	(12,683)
Non-current loans payable	\$ —	\$ 6,298	\$ —	\$ 6,298	—

Credit Facility

On December 14, 2018, the Company entered into a US\$75 million (\$97.4 million) credit facility (the “Credit Facility”) with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerrAscend, is the President and Chief Investment Officer. The Credit Facility bears interest at 8.75% per annum, with a (\$970 (US\$0.75 million) origination fee payable on a quarterly basis. Any principal amount drawn will be due in one year and interest will be payable monthly. The origination fee has been paid as of December 31, 2019.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***13. Loans payable (continued)**

On December 2, 2019, the Company and JW Asset Management agreed to an amendment of the Credit Facility whereby upon maturity on March 15, 2020, the Company would be extended a Term Loan for all outstanding principal and interest still outstanding on the Credit Facility. As of December 2, 2019, the interest rate of the Credit Facility was amended to 12.5% per annum. The expected Term Loan bears an interest rate of 12.5% per annum, payable semi-annually and the maturity date is no later than March 15, 2022. Subsequent to year end, a portion of the proceeds received from Canopy Growth were used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management (see Note 27).

The Credit Facility was recorded at its fair value at inception and subsequently carried at amortized cost.

	December 31, 2019	December 31, 2018
Opening carrying amount	\$ 12,683	\$ —
Loan principal	47,085	13,566
Loan discount- origination fee paid	—	(1,017)
Fair value of loan at inception	59,768	12,549
Interest accretion	5,105	64
Interest paid	(3,569)	—
Effects of movements in foreign exchange	(1,613)	70
Ending carrying amount	\$ 59,691	\$ 12,683

Mortgage Payable

On April 23, 2019, the Company completed a \$6,500 mortgage financing secured by its manufacturing facility in Mississauga, bearing interest of 5.5% and a balance due date of May 1, 2022. The mortgage payable is recorded at its fair value at inception and subsequently carried at amortized cost. As at December 31, 2019, the carrying value of the current portion of the mortgage payable is \$130, while the long-term portion is \$6,298.

Loan from Related Parties

The Company received loan proceeds of US\$1 million (\$1,299), US\$1 million (\$1,299), and US\$0.5 million (\$649) on November 6, 2019, November 12, 2019, and December 16, 2019, respectively, from key management of the Company's subsidiary. The loans collectively bear interest at a rate of 12% per annum, payable monthly, and have a balance due date of June 30, 2020.

14. Leases

On January 1, 2019, the Company adopted IFRS 16 Leases and elected to not restate comparative figures in accordance with the transitional provisions in the standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. As a result of the adoption of IFRS 16, the Company recognized right-of-use assets of \$234 and lease liabilities of \$234 as of January 1, 2019. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019, the weighted average of which is 8.75%. In the initial application of the standard, the Company used the following practical expedients available under the standard:

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***14. Leases (continued)**

- using a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- not to reassess whether a contract is or contains a lease at the date of initial application.

Below is a reconciliation between the Company's operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognized as at January 1, 2019:

Operating lease commitments disclosed as at December 31, 2018	\$	287
Less: short-term leases recognized as expenses on a straight-line basis		(8)
Less: Impact of discounting		(45)
Lease liabilities recognized as at January 1, 2019	\$	234

The lease liability is recorded and subsequently carried at amortized cost.

	December 31, 2019
Opening lease liability	\$ —
Effect of adoption of IFRS 16, January 1, 2019	234
Additions on Grander asset acquisition	169
Additions on Apothecarium acquisition	16,126
Additions on Ilera acquisition	1,971
Non-acquisition related additions	2,901
Lease payments	(1,382)
Interest expense	1,259
Effects of movements in foreign exchange	(549)
Ending lease liability	\$ 20,729
Less: current portion	(1,157)
Non-current lease liability	\$ 19,572

The Company recognized a total of \$54 expenses related to short-term leases and leases of low-value assets for the year ended December 31, 2019.

Undiscounted lease obligations are as follows:

	\$
Less than one year	3,000
One to five years	12,190
More than five years	30,322
Total	45,512

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***15. Convertible debentures**

On October 2, 2019, the Company completed the first tranche of a non-brokered private placement of convertible debentures and warrants. The Company issued 13,243 units, having a maturity date of five years from the date of issue and bearing interest at 6% per annum, compounded and payable annually. Each unit comprises one convertible debenture and 25.2 common share purchase warrants. The convertible debentures are convertible at the holders' option into common shares of the Company at a conversion price of \$5.95.

On November 16, 2019, the Company completed the second tranche of the non-brokered private placement noted above. The Company issued 4,763 convertible debentures under the same terms.

On November 26, 2019, the Company completed the third tranche of the non-brokered private placement noted above. The Company issued 2,654 convertible debentures under the same terms.

	December 31, 2019
Opening carrying amount, December 31, 2018	\$ —
Convertible debentures issued, net of transaction costs	20,343
Less: fair value of conversion option	(5,798)
Less: fair value of warrants	(863)
Fair value of convertible debentures at inception	13,682
Interest accretion	192
Ending carrying amount, December 31, 2019	\$ 13,874

The fair value of the equity portion was calculated as the residual value after determining the fair value of the convertible debentures using the effective interest method. The fair value of the equity portion is allocated to conversion option and warrants using the relative fair value method.

16. Share capital and contributed surplusAuthorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares, unlisted proportionate voting shares, and unlisted exchangeable shares.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital and contributed surplus (continued)**Outstanding share capital

	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Amount \$
Outstanding, December 31, 2017	94,351,198	—	—	50,344
Shares issued – warrant exercises	3,193,138	—	—	2,784
Shares issued – stock option exercises	1,195,741	—	—	800
Shares issued – warrant exercises Plan of Arrangement	16,319,659	—	—	8,909
Exchangeable shares issued- Plan of Arrangement	(38,890,571)	38,890,571	—	—
Proportionate voting shares issued- Plan of Arrangement	(35,021,529)	—	35,022	—
Reallocation from warrants reserve	—	—	—	849
Reallocation from share-based payment reserve	—	—	—	1,197
Outstanding, December 31, 2018	41,147,636	38,890,571	35,022	64,883
Shares issued – warrant exercises	959,772	—	28,636	33,179
Shares issued – stock option exercises	1,101,562	—	—	2,620
Shares issued – acquisition of Grander assets	1,362,343	—	—	6,729
Shares issued – acquisition of Apothecarium	—	—	6,700	41,259
Shares issued – acquisition of Ilera	—	—	5,059	27,488
Shares issued – private placement net of share issue costs	21,992,009	—	—	97,110
Issuance of convertible units	—	—	—	614
Warrants issued	—	—	—	(29,820)
Reallocation from warrants reserve	—	—	—	13,701
Reallocation from share-based payment reserve	—	—	—	2,129
Outstanding, December 31, 2019	66,563,322	38,890,571	75,417	259,892

Plan of Arrangement

On November 30, 2018, the Company completed a plan of arrangement under the Business Corporations Act (Ontario) to restructure its share capital (the “Arrangement”) as follows:

- i. each of Canopy Growth Corporation (“Canopy Growth”) and Canopy Rivers Corporation (“Canopy Rivers”) exchanged each of their existing warrants to acquire Common Shares (“Warrants”) for 0.8548 of a Common Share, based on the difference between the five day volume-weighted average trading price of the Common Shares as of October 5, 2018, being \$7.5778, and the warrant exercise price of \$1.10 (the “Cashless Warrant Exercise”);
- ii. each of Canopy Growth and Canopy Rivers then exchanged all of their Common Shares (including those received in the Cashless Warrant Exercise) for Exchangeable Shares, that are non-voting and non-participating and may not be exchanged into Common Shares until:
 - (a) the applicable stock exchange restrictions applicable to Canopy Growth or Canopy Rivers that restrict their ability to have an investment in an entity with cannabis operations in the United States are lifted or cannabis becomes legal under U.S. federal law; and
 - (b) any necessary stock exchange approvals are received, at which point the Exchangeable Shares will become convertible into Common Shares on a one-for-one basis;

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital and contributed surplus (continued)**

- iii. entities (the “JW Entities”) controlled by Jason Wild, the Chairman of the Company, exchanged their Common Shares for Proportionate Voting Shares on the basis of one Proportionate Voting Share for each 1,000 Common Shares held, which Proportionate Voting Shares carry 1,000 votes per share, are entitled to participate in dividends and in the distribution of proceeds on a wind-up of the Company on a \$1,000-to-\$1.00 basis relative to the Common Shares and are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share;
- iv. the outstanding Warrants held by the JW Entities were amended such that they became exercisable for 0.001 of a Proportionate Voting Share instead of one Common Share; and
- v. the JW Entities, Canopy Growth and Canopy Rivers each waived the negative covenant in their respective subscription agreements entered into with the Company which prevented the Company from conducting business in the United States.

Private Placements

On May 15, 2019, the Company completed the first tranche of a private placement and issued 5,257,662 common shares at a price of \$7.64 per common share for total proceeds of \$40,169. On May 27, 2019, the Company completed the second tranche and issued 3,766,022 common shares at a price of \$7.64 per common share for total proceeds of \$28,772. Total proceeds of the private placement were \$67,176, net of share issue costs of \$1,765.

On December 30, 2019, the Company completed the first tranche of a private placement and issued 12,968,325 units at a price of \$2.45, each comprised of one common share and one common share purchase warrant, for total proceeds of \$31,772. The Company allocated proceeds of \$29,933, net of share issue costs of \$541, to the common shares.

Share subscriptions receivable related to private placements completed during the year totalled \$31,772 as at December 31, 2019 (December 31, 2018 - \$nil). The entire balance has been collected subsequent to year end.

Warrants reserve

The following is a summary of the outstanding warrants for Common Shares as at December 31, 2019 and December 31, 2018.

Number outstanding as at December 31, 2019	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued in payment for services	320,000	160,000	06/06/18	06/06/23	4.16	3.43
Issued in payment for services	70,000	70,000	08/09/18	08/09/23	4.25	3.61
Issued in convertible debt	333,723	333,723	10/02/19	10/02/24	6.49	4.76
Issued in convertible debt	120,027	120,027	11/06/19	11/06/24	6.49	4.85
Issued in convertible debt	66,880	66,880	11/26/19	11/26/24	6.49	4.91
Issued during private placement	12,968,325	12,968,325	12/30/19	01/14/22	3.25	2.04
	13,878,955	13,718,955			3.40	2.18

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital and contributed surplus (continued)**

The fair value of warrants outstanding as at December 31, 2019 and December 31, 2018 was estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date	November 26, 2019	November 6, 2019	October 2, 2019	August 23, 2019	August 9, 2018	June 6, 2018
Volatility	87.79%	83.70%	89.01%	90.29%	100%	100%
Risk-free interest rate	1.47%	1.53%	1.34%	1.32%	2.24%	2.00%
Expected life (years)	5.00	5.00	5.00	3.00	5.00	5.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%	0%	0%
Number of Warrants issued	66,880	120,027	333,723	8,590,908	70,000	320,000
Share price	\$ 3.38	\$ 3.94	\$ 4.98	\$ 6.35	\$ 4.23	\$ 4.59
Value per warrant	\$ 1.6551	\$ 1.6433	\$ 1.6621	\$ 3.4405	\$ 3.1737	\$ 3.4967

During the year ended December 31, 2019, 959,772 Common Share purchase warrants were exercised for gross proceeds of \$1,679 and 28,636,361 Proportionate Voting Share purchase warrants were exercised for gross proceeds of \$31,500. Total gross proceeds from warrant exercises during the year ended December 31, 2019 amounted to \$33,179.

Number Outstanding as at December 31, 2018	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued during private placement	807,022	807,022	07/31/17	07/31/19	1.75	0.58
Issued during private placement	157,750	157,750	08/16/17	08/16/19	1.75	0.62
Issued in payment for services	320,000	—	06/06/18	06/06/23	4.16	4.43
Issued in payment for services	70,000	35,000	08/09/18	08/09/23	4.25	4.61
	1,354,772	999,772			2.45	1.70

The following is a summary of the outstanding warrants for Proportionate Voting Shares as at December 31, 2019 and December 31, 2018. These warrants are exercisable for 0.001 of a Proportionate Voting Share. The Proportionate Voting Shares are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share.

Number outstanding as at December 31, 2019	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued as incentive compensation	8,590,908	8,590,908	08/23/19	08/23/22	7.21	2.65
	8,590,908	8,590,908			7.21	2.65

Number Outstanding as at December 31, 2018	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued during private placement	28,636,361	28,636,361	12/08/17	12/08/20	1.10	1.94

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital and contributed surplus (continued)**Options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years at an exercise price which is the greater of the closing market price of the shares on the CSE on the trading day immediately preceding the date the options are granted and on the same day of the option grant, in accordance with CSE policy. The options are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding shares of the Company as at the date of the grant of options.

The fair value of the various stock options granted during the year ended December 31, 2019 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 88.04% to 96.98%; Risk-free interest rate – 1.15% to 1.96%; Dividend yield – 0%; Forfeiture rate – 26.5%; and Expected lives – 5 years.

The following is a summary of the changes in the Company's options for the year ended December 31, 2019, and year ended December 31, 2018.

	Number of Options	Weighted Average Remaining Life in Years	Weighted Average Exercise Price \$
Balance Outstanding at December 31, 2017	4,063,334	3.16	1.41
Options Granted	6,680,000	N/A	7.64
Options Exercised	(1,225,613)	N/A	0.63
Options Forfeited/Cancelled	(1,044,592)	N/A	3.98
Balance Outstanding at December 31, 2018	8,473,129	5.88	4.28
Options Granted	6,844,000	N/A	6.69
Options Exercised	(1,117,936)	N/A	2.45
Options Forfeited/Cancelled	(3,706,178)	N/A	5.71
Balance Outstanding as at December 31, 2019	10,493,015	4.04	5.53

During the year ended December 31, 2019, \$12,823 (December 31, 2018 - \$7,546) of share-based payments expense was incurred of which \$1,200 (December 31, 2018 - \$513) is included in cost of goods sold and production salaries and wages, and \$19 (December 31, 2018 - \$267) is included in inventory.

During the year ended December 31, 2019, 1,117,936 (December 31, 2018 – 1,225,613) options were exercised for total gross proceeds of \$2,620 (December 31, 2018 – \$800).

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital and contributed surplus (continued)**

The following is a summary of the outstanding stock options as at December 31, 2019 and December 31, 2018.

Number Outstanding as at December 31, 2019	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable as at December 31, 2019
10,493,015	\$ 5.53	4.04	2,443,578

Number Outstanding at December 31, 2018	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2018
8,473,129	\$ 4.28	5.88	1,480,189

At December 31, 2019, the weighted average exercise price of options outstanding and options exercisable was \$5.53 (December 31, 2018 – \$4.28) and \$3.65 (December 31, 2018 – \$6.01) respectively.

Contributed surplus

The Company's contributed surplus balances include the following:

	Warrants reserve	Share-based payments reserve	Contributed surplus	Total
Outstanding, December 31, 2017	23,460	2,336	—	25,796
Share-based compensation	—	6,913	—	6,913
Exercise of stock options	—	(1,197)	—	(1,197)
Exercise of warrants	(849)	—	—	(849)
Plan of arrangement	(8,909)	—	—	(8,909)
Warrants issued for services	633	—	—	633
Options expired/forfeited	—	(203)	—	(203)
Outstanding, December 31, 2018	14,335	7,849	—	22,184
Share-based compensation	587	12,236	—	12,823
Exercise of stock options	—	(2,129)	—	(2,129)
Exercise of warrants	(13,701)	—	—	(13,701)
Private placement	1,298	—	—	1,298
Issuance of proportionate voting warrants	29,820	—	—	29,820
Issuance of convertible units	863	—	4,005	4,868
Warrants expired	(2)	—	—	(2)
Options expired/forfeited	—	(384)	—	(384)
Outstanding, December 31, 2019	33,200	17,572	4,005	54,777

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***17. Non-controlling interest**

Non-controlling interest at December 31, 2019 was \$8,650 (December 31, 2018 - \$1,431) and consisted of the following amounts:

	December 31, 2019	December 31, 2018
Opening carrying amount balance	\$ 1,431	\$ —
Common shares issued to non-controlling interest	—	1,547
Additions of non-controlling interest on acquisition date	8,154	—
Capital contributions	2,346	—
Net loss attributable to non-controlling interest	(3,164)	(116)
Effects of movements in foreign exchange	(117)	—
Ending carrying amount balance	\$ 8,650	\$ 1,431

18. Related parties

- (a) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the years ended December 31, 2019 and December 31, 2018 respectively were as follows:

	December 31, 2019	December 31, 2018
Salaries and wages	\$ 1,688	\$ 901
Share-based payments	5,472	3,491
Total	\$ 7,160	\$ 4,392

- (b) On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation to entities controlled by Jason Wild, Chairman of the Board of TerrAscend. Each warrant is exercisable at \$7.21 per 0.001 share and expires at 36 months from the respective closing date. These warrants resulted in a reduction in share capital of \$29,820.
- (c) During the year ended December 31, 2019, the Company purchased dried flower inventory in the amount of \$827 from State Flower. See note 5 for details on note receivable held from State Flower.
- (d) During the year ended December 31, 2019, the Company had sales of \$6,732 (December 31, 2018 - \$199) to Canopy Growth and other income of \$6 (December 31, 2018 - \$23) related to patient referral fees. There are no amounts payable or receivable to or from Canopy Growth at December 31, 2019 or 2018.
- (e) On December 14, 2018, the Company agreed to terms on a US\$75 million credit facility with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerrAscend, is the President and Chief Investment Officer. Refer to note 13 for additional details.
- (f) The Company received loan proceeds of \$1,299 (US\$1 million), \$1,299 (US\$1 million), and \$649 (US\$0.5 million) on November 6, 2019, November 12, 2019, and December 16, 2019, respectively, from key management of the Company's subsidiary. The loans collectively bear interest at a rate of 12% per annum, payable monthly, and have a balance due date of June 30, 2020. See Note 13 for details.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***19. Income taxes**

The reconciliation of the combined Canadian and U.S. federal and provincial and state corporate income taxes, and to the Company's effective income tax expenses is as follows:

	31-Dec-19	31-Dec-18
Loss before income tax	\$ 217,328	\$ 21,440
Statutory tax rate	26.5%	26.5%
Expected income tax recovery	57,592	5,682
Effect on income taxes of deductible & (non-deductible) adjustments		
IRC 280E adjustment	(3,997)	—
Impairment on goodwill and intangibles	(32,954)	—
Transaction costs and legal fees adjustment	(886)	—
Subsidiary income	(783)	—
IFRIC 23 uncertain tax position	(1,524)	—
Foreign income taxes at different statutory rate	(1,458)	—
Lease adjustment	398	—
Share based compensation and non-deductible expenses	(4,790)	(1,705)
Changes in tax benefits not recognized	(13,394)	(4,671)
Other adjustments	172	(10)
Income tax expense	\$ (1,624)	\$ (704)

The Company's income tax expense (recovery) is allocated as follows:

Current tax expense	\$ (3,959)	\$ (16)
Deferred tax recovery (expense)	2,335	(688)
Income tax expense	\$ (1,624)	\$ (704)

The Company's combined Canadian federal and provincial statutory rates are at 26.5% (December 31, 2018 – 26.5%)

As many of the Company's U.S. subsidiaries operate in the cannabis industry and are subject to the limitations of IRC Section 280E explained above, the impact results in a permanent tax difference as a disallowed tax deduction. Therefore, the U.S. effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss due to the material impact of Section 280E.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***19. Income taxes (continued)**

The Company's current tax liability of \$21,276 as of December 31, 2019 (December 31, 2018 – \$16) includes a liability related to a tax matter arising from application of United States Internal Revenue Code ("IRC") Section 280E to the Apothecarium. Under Section 280E, all ordinary and necessary business deductions are disallowed if the taxpayer's trade or business is "trafficking" in a Schedule I or II Controlled Substance under the Controlled Substances Act. Cannabis remains a Schedule I controlled substance. While the Internal Revenue Service (the "IRS") accepted that the figures on the filed tax returns were substantiated and accurate, it nevertheless sought a complete disallowance of certain expenses under Section 280E for income tax returns for the fiscal years ended September 30, 2014 and September 30, 2015. Through deficiency notices, the IRS asserted that the Apothecarium is liable for a tax deficiency for each of these tax years as well as negligence penalties pursuant to IRC Section 6662(d). The Company disagreed with the IRS assertion and filed a petition with the US Tax Court contesting the IRS's findings and challenging its calculations regarding the disallowed deductions. While the Company cannot predict the outcome and timing of the case at this time, it has recorded a liability of \$19,261 related to the years covered by the tax deficiency notices and certain other years, as at December 31, 2019. On the acquisition of the Apothecarium, the seller set aside cash in an escrow account to be used on future tax indemnifications. As at December 31, 2019, an indemnification asset of \$14,936 has been recorded on the statement of financial position.

The following table summarizes the components of deferred tax:

	31-Dec-19	31-Dec-18
Deferred tax assets		
Non-capital loss carried forward	\$ 1,437	\$ 212
Property, plant and equipment	—	—
Intangible assets	—	—
Share issuance cost	535	—
Lease liability	228	—
Other	13	—
Deferred tax assets	\$ 2,213	\$ 212
Deferred tax liabilities		
Property, plant and equipment	\$ (1,279)	\$ —
Intangible assets	(19,487)	—
Right of use asset	(4,963)	—
Biological assets	(1,667)	(212)
Convertible debentures	(1,798)	—
Investment	—	(688)
Deferred tax liabilities	\$ (29,194)	\$ (900)
Net deferred tax liabilities	\$ (26,981)	\$ (688)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***19. Income taxes (continued)**

Movement in net deferred tax liabilities:

	31-Dec-19	31-Dec-18
Balance at the beginning of the year	\$ (688)	\$ —
Recognized in profit/loss	2,346	(688)
Recognized in goodwill	(28,090)	—
Recognized in equity	(1,195)	—
Other	—	—
Cumulative translation adjustment	646	—
Balance at the end of the year	\$ (26,981)	\$ (688)

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following temporary differences:

	31-Dec-19	31-Dec-18
Deferred tax assets		
Non-capital loss carried forward	\$ 65,417	\$ 21,050
Interest limitation adjustment	5,189	—
Accounts receivable allowance	427	—
Deductible share issuance costs	453	675
Investment in joint venture	—	10
Lease adjustment	321	—
Intangible assets	1,236	—
Investments	115	—
Net capital loss carried forward	127	—
Property, plant and equipment	4,591	1,315
Other	84	—
Deferred tax assets	\$ 77,960	\$ 23,050

The Company's non-capital losses expire as follows:

2034	\$ 696
2035	367
2036	3,199
2037	17,649
2038	36,906
Indefinite	12,018
Total	\$ 70,835

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***20. General and administrative expenses by nature**

The Company's general and administrative expenses for the years ended 2019 and 2018 are as follows:

		For the year ended	
		December 31, 2019	December 31, 2018
Office and general	\$	8,981	\$ 1,966
Professional fees		8,650	7,237
Occupancy costs		1,827	296
Salaries and wages		25,378	3,813
Sales and marketing		4,139	4,384
Travel		1,098	418
Total	\$	50,073	\$ 18,114

21. Segment disclosure

The Company has one operating segment, being the cultivation and sale of cannabis, with subsidiaries located in Canada and the United States.

		Canada		United States		Total
As at December 31, 2019						
Current assets	\$	53,131	\$	37,602	\$	90,733
Non-current assets		45,015		325,018		370,033
Current liabilities		9,822		133,042		142,864
Non-current liabilities		20,529		222,044		242,573
For the year ended December 31, 2019						
Sales	\$	26,942	\$	57,926	\$	84,868
Gross (loss) profit		(17,640)		25,968		8,328
Net loss attributable to controlling interest		(56,457)		(159,331)		(215,788)

		Canada		United States		Total
As at December 31, 2018						
Current assets	\$	43,153	\$	15,641	\$	58,794
Non-current assets		30,184		—		30,184
Current liabilities		16,695		13,693		30,388
Non-current liabilities		688		—		688
For the year ended December 31, 2018						
Sales	\$	6,826	\$	—	\$	6,826
Gross loss		(1,748)		—		(1,748)
Net loss attributable to controlling interest		(22,028)		—		(22,028)

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***22. Supplemental cash flow information**

Non-cash transactions during the years ended December 31, 2019 and December 31, 2018 are as follows:

	For the year ended	
	December 31, 2019	December 31, 2018
Intangibles acquired through issue of Ascendant Lab common shares	\$ —	\$ 417
Common shares issued in plan of arrangement	—	8,909
Interest paid	4,828	—
Shares issued as consideration for acquisition of Grander	6,729	—
Shares issued as consideration for acquisition of Apothecarium	41,259	—
Shares issued as consideration for acquisition of Ilera	27,488	—
Conversion of F&F shares into note receivable	4,188	—
Conversion of F&F note receivable into shares	(4,188)	—
Right of use assets additions	20,126	—
Fair value of harvested plants transferred to inventory	7,884	1,396

The changes in non-cash working capital items during the years ended December 31, 2019 and December 31, 2018 are as follows:

	For the year ended	
	December 31, 2019	December 31, 2018
Receivables	\$ 1,078	\$ (6,489)
Biological assets	—	(1,073)
Inventory	(7,835)	(15,165)
Prepaid expenses and deposits	(1,247)	(2,327)
Deferred costs	—	(313)
Accounts payable and accrued liabilities	1,065	15,985
Corporate income tax payable	(1,051)	—
Deferred revenue	1,167	12
	(6,823)	(9,370)

23. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares a capital budget to manage its capital structure. The Company defines capital as borrowings, equity comprised of issued share capital, share-based payments, accumulated deficit, as well as funds borrowed from related parties.

Since inception, the Company has primarily financed its liquidity needs through the issuance of Common Shares. On December 14, 2018, the Company agreed to terms on a US\$75 million credit facility of which the Company had borrowed US\$45.5 million at December 31, 2019.

There have been no changes to the Company's objectives pertaining to capital management as at December 31, 2019 or during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

24. Financial instruments and risk management

Financial instruments

The Company has classified its cash and cash equivalents, notes receivable, lease receivable, investments, and contingent consideration payable as fair value through profit and loss ("FVTPL"), and receivables (excluding sales tax receivable), accounts payable and accrued liabilities, loans payable, and convertible debentures as amortized cost.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The carrying values of cash and cash equivalents, note receivable, lease receivable, receivables, F&F warrants, accounts payable and accrued liabilities, income tax payable, convertible debentures, contingent consideration payable and loan payable approximate their fair values due to their short periods to maturity. The fair value of the F&F warrants (Note 6) and contingent consideration (Note 8) have been determined based on Level 3 of the fair value hierarchy.

Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and notes receivable. The Company's cash and cash equivalents are held at a major Canadian bank. The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date. The carrying amounts of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Management has reviewed the items comprising the accounts receivable balance and determined that the majority of accounts are collectible; accordingly, allowance for doubtful accounts of \$607 (December 31, 2018 – \$nil) have been recorded. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company has no customers whose balance is greater than 10% of total trade receivables as at December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements*For the years ended December 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***24. Financial instruments and risk management (continued)**

The following tables set forth details of trade receivables, including aging of trade receivables that are not overdue, as well as an analysis of overdue amounts and related allowance for doubtful accounts and sales return provisions:

	December 31, 2019	December 31, 2018
Trade receivables	7,994	5,441
Less: allowance for expected credit losses	(607)	—
Less: sales return provisions	(2,010)	—
Total trade receivables, net	5,377	5,441
Of which		
Current	6,506	5,441
31-90 days	880	—
Over 90 days	608	—
Less: allowance for expected credit losses	(607)	—
Less: sales return provisions	(2,010)	—
Total trade receivables, net	5,377	5,441

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at December 31, 2019, the Company had cash and cash equivalents and receivables balance of \$57,281 (December 31, 2018 - \$32,975) to settle current liabilities of \$142,864 (December 31, 2018 - \$30,388). All of the Company's financial current liabilities have contractual maturities of less than one year with trade accounts payable being due within 30 days on average. The loan payable has a maturity of one year. Contingent consideration arising from acquisitions are due as specified and as per conditions in the various acquisition agreements. The Company manages liquidity risk through access to public capital markets.

Subsequent to year end on March 10, 2020, the Company used part of the proceeds from a loan financing agreement with Canopy Growth to fully pay off the Credit Facility with JW Asset Management (see Note 27).

(c) Market Risk

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

i) Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar and other foreign currencies will affect the Company's operations and financial results.

The Company and its subsidiaries do not hold significant monetary assets or liabilities in currencies other than their functional currency and as a result the Company is not exposed to significant currency risk. Therefore, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

24. Financial instruments and risk management (continued)

ii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact the value of cash equivalents. The Company's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date. The company does not have significant cash equivalents at year end. The Company's notes receivable bear interest at fixed rates of 6%-12% per annum.

In respect of financial liabilities, the Company's loans payable have fixed interest rates from 12% to 12.50% per annum. The mortgage payable bears interest at a fixed rate of 5.5% per annum. All other financial liabilities are non-interest-bearing instruments.

iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company's other price risk includes equity price risk, whereby investments in F&F and Think AHL0T are measured at fair value through profit or loss and as a result are subject to fluctuations in quoted market prices. There is no separately quoted market value for the Company's investments in the shares of certain strategic investments. As certain of the Company's investments are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's investments. Based upon the net exposure as at December 31, 2019 and assuming all other variables remain constant, a net increase or decrease of 20% (2018 - 20%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$321 and \$207 (2018 - \$nil and \$nil).

25. Commitments and contingencies

On October 15, 2018, the Company's wholly owned subsidiary TerrAscend Canada entered into a multi-year cultivation agreement with PharmHouse Inc. ("PharmHouse"), a joint venture between Canopy Rivers Inc. and the principals and operators of a leading North American greenhouse produce company. Under the terms of the agreement, PharmHouse will grow and supply cannabis to TerrAscend Canada from an existing 1.3 million square foot greenhouse located in Leamington, Ontario. Once fully licensed, the production of flower, trim and clones from up to 20% of the dedicated flowering space at the greenhouse will be made available to TerrAscend Canada.

On October 20, 2018, Investments International Inc. ("Investments") signed a lease agreement with the Company and its wholly owned subsidiaries, 2627685 Ontario Inc. and 2151924 Alberta Inc. On February 8, 2019, Investments filed a statement of claim under the Court of Alberta against the Company and its wholly owned subsidiaries, for breach of the lease agreement. The amount claimed is \$2,700 plus interest from and after the termination date of an unexecuted lease. The Company has paid initial lease deposits in addition to submitting a statement of defence. The Company does not expect the claim to have a material adverse impact on the Company and no amount has been accrued in the consolidated statements of loss.

Subsequent to year end on March 31, 2020, the Company's subsidiary, TerrAscend Canada Inc., signed an amended agreement with MediPharm Labs Inc. whereby TerrAscend Canada Inc. agreed to purchase from MediPharm Labs Inc. certain quantities of cannabis crude oil and/or distillate. The maximum purchase commitments under this agreement are \$4,800.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

26. Reclassification of prior period comparative figures

During the current period, the Company retrospectively reclassified certain balances presented in the comparative consolidated statements of financial position and consolidated statements of loss. The Company has reclassified deferred income tax liabilities as long-term liabilities, has combined prepaid expenses, deposits and deferred costs into prepaid expenses and other assets, and has combined warrants reserve and share based payments reserve into contributed surplus. Additionally, in order to conform with the Company's current accounting policy of capitalizing production costs, the Company has reclassified \$1,253 from unrealized gain on changes in fair value of biological assets and (\$464) from realized fair value amounts included in inventory sold to cost of sales in the prior period.

27. Subsequent events

- i) On January 10, 2020, the Company closed the second tranche of the non-brokered private placement announced on December 30, 2019, issuing 3,450,127 units at an issue price of \$2.45 per unit, resulting in proceeds of \$8,453. Each unit consists of one common share and one common share purchase warrant, exercisable into one common share prior to January 14, 2022 at an exercise price of \$3.25.
- ii) On January 15, 2020, the Company made the first earnout payment to the former owners of Ilera in the amount of US\$19.35 million, with an additional US\$12.5 million deferred until the final earnout payment is due on March 15, 2021, payable over five installments every three months beginning January 15, 2020. The full amount of US\$31.85 million is included in accounts payable and accrued liabilities as at December 31, 2019.
- iii) On January 16, 2020, NJ was issued a permit to cultivate medical marijuana by the New Jersey Department of Health.
- iv) On January 23, 2020, the Company elected to convert all principal and accrued interest under the convertible note into 4,880.44 Class B Units in State Flower (Note 5).
- v) On January 27, 2020, the Company announced the termination of the Securities Purchase Agreement, pursuant to which the Company would have acquired all of the issued and outstanding equity interest of Gravitas Nevada. The Company paid a US\$3 million termination fee to the sellers, which was released from escrow and expensed to transaction costs during the year ended December 31, 2019.
- vi) On January 27, 2020, the Company closed the third tranche of the non-brokered private placement announced on December 30, 2019, issuing 1,863,659 units at an issue price of \$2.45 per unit, resulting in proceeds of \$4,566. Each unit consists of one common share and one common share purchase warrant, exercisable into one common share prior to January 14, 2022 at an exercise price of \$3.25.
- vii) On January 28, 2020, the Company announced the appointment of Jason Ackerman, Executive Chairman of the Company, to the role of interim CEO.
- viii) On January 29, 2020, TerrAscend Utah, LLC was issued a medical cannabis processor license by the Utah Department of Agriculture and Food.
- ix) In January 2020, the Company received loan proceeds of \$2,000 (US\$1.5 million) from key management of the Company's subsidiary. The loan bears interest at a rate of 12% per annum, payable monthly, and has a balance due date of June 30, 2020.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

27. Subsequent events (continued)

- x) On February 5, 2020, the Company amended the terms of its previously announced \$13,243 (US\$10 million) convertible debenture issuance to Canopy Rivers. Pursuant to the amended terms, the debentures have been converted into a \$13,243 loan agreement entered into between Canopy Rivers and the Company. Interest on the principal amount outstanding will accrue at a rate of 6% per annum and all interest payments are payable in cash. The principal amount matures on October 2, 2024. The Company has also issued 2,225,714 common share purchase warrants, exercisable at \$5.95 and expiring on October 2, 2024.
- xi) On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth in the amount of \$80,500 pursuant to a secured debenture. In connection with the funding of the loan, the Company has issued 17,808,975 common share purchase warrants to Canopy Growth.

The secured debenture bears interest at a rate of 6.10% per annum and matures on March 10, 2030. The debenture is secured by the assets of TerrAscend Canada, is not convertible and is not guaranteed by the Company. The warrants are comprised of 15,656,242 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of \$5.14 per share, expiring on March 10, 2030, and 2,152,733 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of \$3.74 per share, expiring on March 10, 2031. The Warrants will be exercisable by Canopy Growth following changes in U.S. federal laws permitting the cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States.

A portion of the proceeds received from Canopy Growth were used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management.

- xii) On March 12, 2020, the World Health Organization (“WHO”) declared a global pandemic known as COVID-19. The impacts on global commerce are expected to be far reaching. This will likely impact demand for the Company’s products in the near term and will also likely impact our supply chains. It may also impact expected credit losses on our trade receivables and may cause staff shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. At this time, management cannot reliably measure the impact of these developments.
- xiii) On March 25, 2020, the Company issued 1,625,701 common shares to Regulatory Consulting Group Inc., an entity controlled by the minority shareholders of NJ, pursuant to a success fee surrounding the granting of certain licenses in the state of New Jersey to NJ.
- xiv) On April 14, 2020, Jason Ackerman was appointed to the role of Chief Executive Officer and Adam Kozak resigned from his role as Chief Financial Officer.
- xv) Subsequent to December 31, 2019, the Company granted 3,500,000 options to employees, consultants and directors of the Company. The options have a weighted average exercise price of \$2.49. Additionally, subsequent to December 31, 2019, the Company awarded 950,000 options to employees, consultants and directors of the Company pursuant to employment agreements and such awarded options will be granted in the second quarter of 2020.

Subsequent to December 31, 2019, the Company issued 25,348,475 warrants within non-brokered private placement offerings. The warrants have a weighted average exercise price of \$4.70.

Subsequent to December 31, 2019, 861,090 unvested options were forfeited and 530,555 vested options expired.